properly determined, prudently incurred costs would violate the Act.

50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?

The Act leaves it in the hands of the states to determine what carriers are eligible for high-cost compensation through their authority to designate ETCs (§214(e)). In large LEC areas, the state is required to designate additional ETCs that request that status. In rural LEC areas, a state public interest finding is a prerequisite for additional designation. In either case, any competitive bidding would have to be limited to properly designated ETCs.

The use of a winner's premium to induce low bidding would conflict with the Act's requirements for high-cost compensation that is "sufficient" (§254(e)), but that does not allocate an excessive share of costs to universal services (§254(k)). A premium above the costs bid as necessary for universal service by a winning bidder would shift those extra costs onto the ratepayers -- who will ultimately bear the costs of more than necessary cost recovery paid to the winning bidder. Such a premium would give the winning bidder an unwarranted extra competitive advantage. The competitive bidding process would also ensure that losing bidders would not recover the level of costs they had bid as necessary and "sufficient" to provide universal service.

51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?

It is not clear what safeguards would be appropriate to prevent strategic under-bidding or whether it is a likely problem. However, this question gets at another, more basic, reason that competitive bidding will discourage competition. As the question recognizes, lower bids will drive out competition because the higher bidders will not recoup their high costs of service. This phenomenon will not be limited to situations where a large company is bidding below cost, however. High cost compensation based on the winning bidder's cost is likely to wipe out the ability of the losing companies to provide universal service and leave their actually-incurred costs uncompensated. This will weaken and deter competition, at best, and defeat the Act's intention to make universal service compensation competitively neutral by no longer confining eligibility to one provider in large and urban LEC areas.

52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?

Quality of service and network advancement will very likely suffer unavoidably under a competitive bidding scheme. Rewarding the lowest bidder without imposing intrusive and pervasive regulatory oversight of quality would put in place incentives to shortchange high-cost areas.

53. How is collusion avoided when using a competitive bid?

Century and TDS Telecom do not know to what extent collusion would be a problem with competitive bidding or what regulatory remedy would be necessary..

54. Should the structure of the auction differ if there are few bidders? If so, how?

Regardless of the structure of the auction, the legal, policy and practical drawbacks of auctions would likely lead, in effect, to a bidding process for "serial monopoly" provision of universal service.

55. How should the Commission determine the size of the areas within which eligible carriers bid for universal service support? What is the optimal basis for determining the size of those areas, in order to avoid unfair advantage for either the incumbent local exchange carriers or competitive carriers?

As noted above, the Act limits high-cost payments to state-designated ETCs. For LECs that do not fit the definition of rural telephone company, the Act defines "service area" in a way that excludes FCC jurisdiction entirely. Section 214(e)(5) dictates use of a "geographic area established by a State commission for the purpose of determining universal service obligations." For a rural telephone company, the Act maintained the relevant area as today's study area. To prevent dislocation, that provision also specifies that rural study areas can only be changed by a Joint Board proceeding. The pending universal service implementation proceeding, CC Docket No. 96-45, has mistakenly raised the rural service area definition issue. However, the FCC does not have authority to prescribe new rural service areas by itself. The Act, moreover, defines service area as "a geographic area...for the purpose of determining universal service and support mechanisms." Consequently, the FCC does not have the authority, assumed in this question, to substitute a different geographical area for universal service bidding purposes.

Benchmark Cost Model (BCM)

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?

The record before the Joint Board, including the earlier Century and TDS Telecom filings, demonstrates that the BCM in its earlier forms was not suitable for identifying costs of rural telephone companies' services. We hope to obtain adequate information about the latest version, BCM 2, including its "cost" results for Century and TDS Telecom study areas. At present, there is not enough information available to gauge how the new model performs as a predictor for the actual costs of small and rural study areas. Preliminary reports are not promising.

57. Should the BCM be modified to include non-wireline services? If wireless technology proves less costly than wireline facilities, should projected costs be capped at the level predicted for use of wireless technology?

Century and TDS Telecom continue to believe that the Act and the Constitution stand as insurmountable obstacles to applying a proxy based on an imaginary or optimized network to identify what costs a carrier of last resort can recover. Such carriers have been responsible for constructing and operating a ubiquitous public switched network to provide universal service under government requirements and restrictions. Such companies should not be relegated to compensation that is deliberately designed to cap their costs at a less-than-compensatory level and fails to take into account their regulated capital recovery history.

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?

Wire center information at least relates to the design of the existing public switched universal service provider networks. Census Block Groups are artificial statistical constructs designed for totally unrelated census purposes.

59. The Maine PUC and several other State commissions proposed inclusion in the BCM

of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those commenters also proposed the use an additional extra-high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

The more detail and recognition of variables built into a proxy, the more chance it has of beginning to approach real world results. What remains to be seen is whether there is any proxy with sufficient variables and detail to predict small and rural study area costs accurately, without reaching an excessive level of complexity. It would seem clear that a proxy that requires unusually sophisticated computer systems to implement and evaluate should be rejected as outside a reasonable range of complexity, especially for mandatory application to small and rural LECs.

60. The National Cable Television Association proposed a number of modifications to the BCM related to switching cost, fill factors, digital loop carrier subscriber equipment, penetration assumptions, deployment of fiber versus copper technology assumptions, and service area interface costs. Which, if any, of these changes would be feasible and advisable to incorporate into the BCM?

See answer to question 59. above.

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?

Subscriber income levels are a possible factor for determining Lifeline and Linkup compensation issues. The Act requires rural and urban service and rate comparability, however, a standard which relates to the costs, prices and incentives to provide rural services, not the income of the rural area's population. High cost recovery and low income support are separate and distinct universal service problems, with separate and distinct statutory remedies

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create an opportunity for over-recovery from universal service support mechanisms?

For universal service purposes, the Act does not divide interstate and state high cost responsibilities or mechanisms on the basis of jurisdictionally separated costs. The existing universal service fund provides interstate high cost recovery on the basis of comparisons between individual LECs' unseparated loop cost and the national average unseparated loop cost. The interstate high cost mechanism resulting from this proceeding should also look at total costs and gear the level of high cost compensation to the federal definition of universal service and the Act's principles. Intrastate high-cost compensation would then be based on the unseparated costs added by any additional or more advanced state definition of universal service. Access charges and separations must be harmonized with the new universal service mechanisms. For example, an explicit fund collected on the model of the TRS cost recovery program could require changes in current mechanisms implemented within the separations and access charge framework.

63. Is it feasible and/or advisable to integrate the grid cell structure used in the Cost Proxy Model (CPM) proposed by Pacific Telesis into the BCM for identifying terrain and population in areas where population density is low?

To evaluate this question, further information is necessary on the impact of the Pacific Telesis (Pacific Plan) grid cell structure on the correlation of small and rural LEC costs and proxy results.

Cost Proxy Model Proposed by Pacific Telesis

64. Can the grid cell structure used in the CPM reasonably identify population distribution in sparsely-populated areas?

65. Can the CPM be modified to identify terrain and soil type by grid cell?

66. Can the CPM be used on a nationwide basis to estimate the cost of providing basic residential service?

67. Using the CPM, what costs would be calculated by Census Block Group and by wire center for serving a rural, high-cost state (e.g., Arkansas)?

68. Is the CPM a self-contained model, or does it rely on other models, and if so, to what extent?

64-68. More information on the impacts and reliability of the factors used in the Pacific Plan, how closely they correlate with the actual costs of small and rural study areas and the effect of changes made in recent plan revisions is necessary to evaluate these questions. In particular, the Joint Board should require that the model and necessary data be publicly available, without any requirement to purchase the model or to do without necessary information because it is proprietary. Enough information must be readily available that Century, TDS Telecom and others can evaluate the methodology and understand the impact adopting the plan would have on their operating companies and ultimately their customers. At the same time individual LEC's proprietary data would require confidentiality.

SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the

magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

Century and TDS Telecom dispute the notion that all or most of the costs recovered through the CCL charge are a "subsidy to support universal service." This does not mean that usage-sensitive recovery is appropriate, however, or preclude shifting a reasonable part of these costs into the federal high-cost recovery mechanism. Nor does the nature of the CCL costs justify shifting additional costs from the CCL in an amount which would significantly raise SLCs. In addition, the Act's rural-and-urban-comparability principle stands in the way of significantly increased disparities in SLC charges.

Measurements of the magnitude of any ILEC cost or subsidy should use a fully distributed cost methodology.

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

To remove the erroneous market signals generated by usage-sensitive recovery, bulk billing is appropriate when non-traffic sensitive costs are recovered based on usage. A flat rate recovery per line billed to the interexchange carriers would break the usage-based recovery problem, at least until access charge reform has been completed. The argument over bulk billing the CCL and RIC should not be allowed to obscure the greater need and far more limited impact of bulk billing DEM weighting to facilitate toll rate averaging by interexchange carriers pursuant to § 254(g).

Low-Income Consumers

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

The Act expressly retains the Lifeline and Linkup programs in their present form. However, the Commission and the Joint Board appear to have the duty under §254(d) to support these, like all federal universal service mechanisms, through contributions from all providers. They also have the authority to revamp these programs, consistent with the universal service principles and directives in §254, and may find that support for a portion of the federal SLC is no longer sufficient if the "rate rebalancing" advocated by some parties takes place.

Administration of Universal Service Support

72. Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission." What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues, revenues net of payments to other carriers, retail revenues, etc.)?

The Joint Board should consider following the example of the TRS recovery mechanism. To avoid the burdens and costs of calculating small contributions, every interstate carrier pays at least a minimum amount, \$100. The same approach could be adapted to the TRS-like universal service contribution mechanism funded by all interstate providers, again by adopting a $100 minimum contribution for providers with interstate retail revenues below a specified level. All providers of interstate telecommunications services would contribute at least that amount.

Respectfully submitted,

CENTURY TELEPHONE ENTERPRISES , INC. and
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August 2, 1996

CERTIFICATE OF SERVICE

I, Weldrena Jones-Bean, a secretary in the offices of Koteen & Naftalin, hereby certify that true copies of the foregoing answers to questions on Universal Service have been sent to the following by first class United States mail, postage prepaid, on this 2nd day of August, 1996:

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